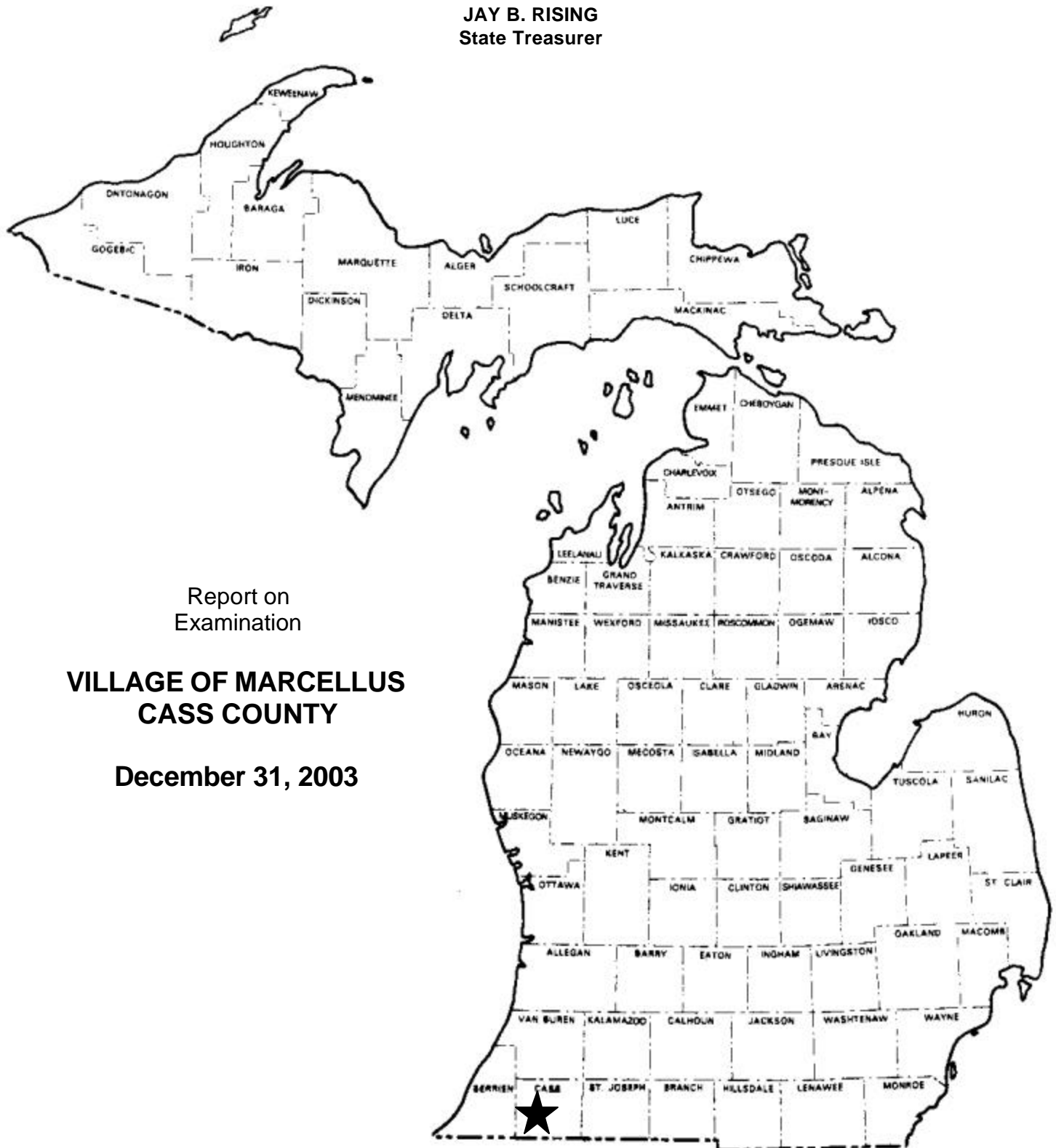


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

**VILLAGE OF MARCELLUS
CASS COUNTY**

December 31, 2003

Local Audit and Finance Division
Bureau of Local Government Services

VILLAGE OF MARCELLUS

VILLAGE COUNCIL

Allen Fisk
President

Scott Wiles
Council Member

Burke Webb
Council Member

Larry Davis
Council Member

Michael Jackson
Council Member

John Haney
Council Member

Steven Foster
Council Member

Sally Jackson
Clerk

Linda Brookens-Underwood
Treasurer

Village Population--2000
1,193



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

June 1, 2004

Village Council
Village of Marcellus
Cass County
P.O. Box 428
Marcellus, Michigan 49067

Independent Auditor's Report

Dear Board Members:

We have audited the general purpose financial statements of the Village of Marcellus, Cass County, Michigan, as of and for the year ended December 31, 2003 as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note B, the Village has not maintained a record of its general fixed assets except those recorded by the Enterprise Fund and, accordingly, the statement of general fixed assets included in this report does not include all of the general fixed assets of the Village, as required by accounting principles generally accepted in the United States. Determination of the value of the Village's general fixed assets was not possible.

In our opinion, except that the omission of the fixed assets results in an incomplete presentation as explained in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Marcellus and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated June 1, 2004 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

We conducted our audit for the purpose of forming an opinion on the general purpose financial statements, taken as a whole. The accompanying supporting schedules are presented for purpose of additional analysis and are not a required part of the general purpose financial statements of the Village of Marcellus. Such information has been subjected to the auditing procedures applied in the examination of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF MARCELLUS

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VILLAGE OF MARCELLUS
COMBINED BALANCE SHEET--ALL FUND TYPES AND
ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2003

EXHIBIT A

	PRIMARY GOVERNMENT			DISCRETE COMPONENT UNIT		
	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPE	Total (Memorandum Only)	Downtown Development Authority	Total (Memorandum Only)
	General Fund	Special Revenue	Enterprise Fund			
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 99,923	\$ 79,740	\$ 520,869	\$ 700,532	\$ 30,468	\$ 731,000
Receivables						
Taxes--Delinquent	19,753	7,783		27,536		27,536
Accounts	9,325		29,571	38,896		38,896
Due From State	52,075	11,906		63,981		63,981
Due From Other Funds	41,756	9,203	3,848	54,807		54,807
Fixed Assets (Net)			563,148	563,148		563,148
Total Assets	<u>\$ 222,832</u>	<u>\$ 108,632</u>	<u>\$ 1,117,436</u>	<u>\$ 1,448,900</u>	<u>\$ 30,468</u>	<u>\$ 1,479,368</u>
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts Payable	\$ 34,486	\$ 3,321	\$ 10,603	\$ 48,410		\$ 48,410
Due to Other Funds	498	43,761	10,548	54,807		54,807
Deferred Revenue	19,753	7,783		27,536		27,536
Bonds Payable			318,000	318,000		318,000
Total Liabilities	<u>54,737</u>	<u>54,865</u>	<u>339,151</u>	<u>448,753</u>	<u>\$ -</u>	<u>448,753</u>
Fund Equities						
Fund Balance	168,095	53,767		221,862	30,468	252,330
Retained Earnings			778,285	778,285		778,285
Total Fund Equity	<u>168,095</u>	<u>53,767</u>	<u>778,285</u>	<u>1,000,147</u>	<u>30,468</u>	<u>1,030,615</u>
Total Liabilities and Fund Equity	<u>\$ 222,832</u>	<u>\$ 108,632</u>	<u>\$ 1,117,436</u>	<u>\$ 1,448,900</u>	<u>\$ 30,468</u>	<u>\$ 1,479,368</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES--ALL GOVERNMENTAL FUND TYPES
AND DISCRETELY PRESENTED COMPONENT UNITS
For the Year Ended December 31, 2003

EXHIBIT B

	PRIMARY GOVERNMENT			DISCRETE COMPONENT UNIT	
	General Fund	Special Revenue	Total (Memorandum Only)	Downtown Development Authority	Total (Memorandum Only)
Revenues					
Taxes	\$ 111,881	\$ 47,090	\$ 158,971		\$ 158,971
Licenses and Permits	7,199		7,199		7,199
State Grants	145,909	80,630	226,539		226,539
Charges for Services	59,602		59,602		59,602
Interest and Rentals	79,821	820	80,641	\$ 28,562	109,203
Other Revenue	571	264	835		835
Total Revenues	404,983	128,804	533,787	28,562	562,349
Expenditures					
Legislative	11,342		11,342		11,342
General Government	85,012		85,012	7,445	92,457
Public Safety	95,821		95,821		95,821
Public Works	102,308	129,734	232,042	37,820	269,862
Other	18,803		18,803		18,803
Capital Outlay	109,125		109,125		109,125
Total Expenditures	422,411	129,734	552,145	45,265	597,410
Excess of Revenues Over (Under) Expenditures	(17,428)	(930)	(18,358)	(16,703)	(35,061)
Other Financing Sources (Uses)					
Operating Transfers In		10,972	10,972		10,972
Operating Transfers (Out)		(10,972)	(10,972)		(10,972)
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(17,428)	(930)	(18,358)	(16,703)	(35,061)
Fund Balance--January 1, 2003	185,523	54,697	240,220	47,171	287,391
Fund Balance--December 31, 2003	\$ 168,095	\$ 53,767	\$ 221,862	\$ 30,468	\$ 252,330

The Notes to Financial Statements are an integral part of the statement.

VILLAGE OF MARCELLUS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL
GENERAL FUND AND SPECIAL REVENUE FUNDS
For the Fiscal Year Ended December 31, 2003

EXHIBIT C

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ 118,479	\$ 111,881	\$ (6,598)	\$ 46,386	\$ 47,090	\$ 704
Licenses and Permits	7,439	7,199	(240)			
State Grants	159,334	145,909	(13,425)	69,882	80,630	10,748
Charge for Services	62,906	59,602	(3,304)			
Interest and Rentals	58,500	79,821	21,321	350	820	470
Other Revenue	150	571	421		264	264
Total Revenue	406,808	404,983	(1,825)	116,618	128,804	12,186
Expenditures						
Legislative	14,969	11,342	3,627			
General Government	76,803	85,012	(8,209)			
Public Safety	105,250	95,821	9,429			
Public Works	139,544	102,308	37,236	128,037	129,734	(1,697)
Other	17,375	18,803	(1,428)			
Capital Outlay	112,368	109,125	3,243			
Total Expenditures	466,309	422,411	43,898	128,037	129,734	(1,697)
Excess of Revenues Over (Under) Expenditures	(59,501)	(17,428)	42,073	(11,419)	(930)	10,489
Other Financing Sources (Uses)						
Operating Transfers In	30,000		(30,000)	51,053	10,972	(40,081)
Operating Transfers (Out)			-	(81,053)	(10,972)	70,081
Total Other Financing Sources (Uses)	30,000	-	(30,000)	(30,000)	-	30,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(29,501)	(17,428)	12,073	(41,419)	(930)	40,489
Fund Balance--January 1, 2003	30,047	185,523	155,476	43,386	54,697	11,311
Fund Balance--December 31, 2003	\$ 546	\$ 168,095	\$ 167,549	\$ 1,967	\$ 53,767	\$ 51,800

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS--ALL PROPRIETARY FUND TYPES
For the Fiscal Year Ended December 31, 2003

EXHIBIT D

	Enterprise Fund
Operating Revenues	
Charge for Services	\$ 232,129
Other	4,228
Total Operating Revenues	<u>236,357</u>
Operating Expenses	
Personnel Costs	3,980
Operating Expenses	10,260
Repairs and Maintenance	3,433
Contractual Services	143,539
General Insurance	5,721
Utilities	11,537
Vehicle Rental	17,928
Depreciation	29,908
Total Operating Expenses	<u>226,306</u>
Net Operating Income (Loss)	<u>10,051</u>
Nonoperating Revenues (Expenses)	
Interest Income	8,503
Interest Expense	(9,000)
Total Nonoperating Revenues (Expenses)	<u>(497)</u>
Net Income (Loss)	<u>9,554</u>
Retained Earnings--January 1, 2003	<u>768,731</u>
Retained Earnings--December 31, 2003	<u><u>\$ 778,285</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Fiscal Year Ended December 31, 2003

EXHIBIT E

	Total Enterprise Funds
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 224,637
Cash Received From Other Operating Revenue	4,228
Cash Payments to Employees for Services and Benefits	(3,980)
Cash Payments to Suppliers for Goods and Services	<u>(182,901)</u>
Net Cash Provided by Operating Activities	<u>41,984</u>
Cash Flows From Noncapital Financing Activities	
Due From Other Funds	(2,989)
Due to Other Funds	<u>8,985</u>
Net Cash Provided by Capital and Related Financing Activities	<u>5,996</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of Capital Assets	(147,102)
Proceeds From Issuance of Bonds	148,000
Reduction of Long-Term Debt	(10,000)
Interest Paid on Capital Financing	<u>(9,000)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(18,102)</u>
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>8,503</u>
Net Cash Provided by Investing Activities	<u>8,503</u>
Net Increase (Decrease) in Cash and Cash Equivalents	38,381
Cash and Cash Equivalents at Beginning of Year	<u>482,488</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 520,869</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 10,051
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	29,908
(Decrease) Increase in Accounts Receivable	(7,492)
(Decrease) Increase in Accounts Payable	<u>9,517</u>
Net Cash Provided by Operating Activities	<u><u>\$ 41,984</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Marcellus is located in Cass County and covers an area of .7 square miles and operates under a general law village form of government. The village provides services to its 1,193 residents in many areas including: public safety (police), public works, and general government. The Village of Marcellus is a general law village governed by a six member council and president elected by the citizens of the village.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included.

The individual component units discussed below are included in the village's reporting entity because of the significance of their operational or financial relationships with the village.

DISCRETELY PRESENTED COMPONENT UNITS

The following component unit is reported within the "component units" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the Village of Marcellus, but for which the village is financially accountable, or its relationship with the village is such that exclusion would cause the village's financial statements to be misleading or incomplete.

Downtown Development Authority

The Downtown Development Authority exists to encourage economic development in the downtown area of the village. The governing body of the component unit is appointed by the village council. The authority's property tax revenues are levied under the taxing authority of the village and are included as part of the village's total tax levy, and the village is secondarily liable for the authority's bonds. The component unit maintains a general fund as its sole operating fund. Separate financial statements of the individual component unit have not been issued as management believes these general purpose financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

JOINT VENTURE

The village is a member of the Marcellus Area Emergency Services Association (MAESA); a joint venture of the Village of Marcellus and the Township of Marcellus, formed to provide fire protection within the participating municipalities. Costs of operations and capital expenditures are supported by contributions from the participating municipalities that take into account their respective SEV, population, and number of fire calls. The Marcellus Area Emergency Services Association is managed by a board which consists of three members from each of the participating municipalities. During 2003, the village contributed 11,979 to MAESA. The board adopts the MAESA's budget and controls its financing. Complete financial statements for MAESA can be obtained from the MAESA's administration office located at 177 East Main Street, Marcellus, Michigan 49067.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained, consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Village of Marcellus are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, state distributions, grants, and charges for services to provide for the administration and operation of general operating expenditures of the village government.

Special Revenue Funds

These funds are used to account for specific revenue sources, generally derived from State and Federal grants, General Fund appropriations and charges for services, which are to be expended for specific purposes as dictated by legal, regulatory, or administrative requirements.

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUNDS

Enterprise Funds

These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the village is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or, (b) where the village has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Governmental Fund Types

The governmental fund types (General and Special Revenue Funds) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable.

Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due; and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Proprietary Fund Type

The proprietary fund type (Enterprise Funds) are accounted for on a cost-of-service or "capital maintenance" measurement focus using the accrual basis of accounting.

The Village of Marcellus applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments

For purposes of the statement of cash flows, demand deposits and certificates of deposit are considered to be cash equivalents. Investment are stated at fair value based on quoted market prices.

Property Taxes

The village's 2003 ad valorem tax is levied and collectible on July 1, 2003. It is the village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing of the village operations. Property taxes are recognized when received. The 2003 State taxable valuation of village amounted to \$10,746,237, on which ad valorem taxes levied for all village purposes are \$162,023. There are 10.7696 mills for general operations and 4.3076 mills for street improvements and are recognized in the respective General and Municipal Street Fund.

Uncollected real property taxes, which become delinquent October 1, are purchased by Cass County and paid to the village in June of the subsequent year. The delinquent taxes at December 31st are recorded as delinquent taxes receivable and are offset by deferred revenue.

Accounts Receivable

The accounts receivable for the village are recorded in the General, Water, and Sewer Funds. The receivables are based on the garbage, sewer, and water services provided by the village. The receivables do not have an allowance for doubtful accounts because any receivables not collected are placed on the customer's tax bill. The receivable for the garbage services in the General Fund is \$5,811, the receivable for the Sewer Fund is \$8,739, and the receivable for the Water Fund is \$20,832, respectively. The receivables are not offset by deferred revenue. The General Fund also has an accounts receivable amount of \$3,514 for a franchise fee receivable due from the local cable company at December 31, 2003 making the total receivable for the General Fund \$9,325.

Taxes Receivable--Delinquent

The taxes receivable delinquent in the General Fund and Municipal Street Fund consist of uncollected real property taxes levied July 1, 2003, which have not been collected at December 31, 2003. The delinquent property taxes for the General and Municipal Street Fund are \$19,753 and \$7,783, respectively, and are offset by deferred revenue.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FIXED ASSETS

Governmental Fund Types

The accounting policies of the village as they relate to fixed assets are not in accordance with generally accepted accounting principles (GAAP) in that the general fixed assets are not recorded. Fixed asset purchases of the village's governmental funds are recorded as capital outlay expenditures at the time of the purchase and are required by generally accepted accounting principles to be accounted for in the general fixed assets account group. No depreciation is recorded for these general fixed assets.

Proprietary Fund

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful life (5 to 40 years) using the straight-line method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Total Column on Combined Statements--Overview

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

NOTE C--LEGAL COMPLIANCE

Budgets are adopted by the village council for the General Fund and some special revenue funds after a public hearing is held. However, the village did not adopt a budget until after the beginning of the fiscal year. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The village council does not monitor or amend the budgets as necessary. Unexpended appropriations lapse at year-end.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE C--LEGAL COMPLIANCE (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

The village has not complied with certain provisions of Public Act 2 of 1968, as amended. Items of noncompliance are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General Government			
Clerk	\$ 22,073	\$ 31,972	\$ (9,899)
Public Works			
Refuse Collection	46,000	64,647	(18,647)
Other			
Insurance and Fringes	17,375	18,803	(1,428)
Municipal Street			
Public Works	17,000	35,861	(18,861)

NOTE D--BALANCE SHEET CASH AND INVESTMENTS

Michigan Compiled Laws (MCL), Section 129.91, authorizes the local unit to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities, and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Deposits are carried at cost. Deposits of the village are at two banks in the name of the village. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in the instruments described in the preceding paragraphs. The village's deposits are in accordance with statutory authority.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE D--BALANCE SHEET CASH AND INVESTMENTS (Continued)

The Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the village's cash deposits are as follows:

	<u>Carrying Amounts</u>		<u>Total</u>
	<u>Primary Government</u>	<u>Component Units</u>	
Insured (FDIC)	\$ 200,000	\$ 30,468	\$230,468
Uninsured and Uncollateralized	500,282		500,282
Imprest Cash	<u>250</u>	<u></u>	<u>250</u>
Total Deposits	<u>\$ 700,532</u>	<u>\$ 30,468</u>	<u>\$731,000</u>

	<u>Bank Balances</u>		<u>Total</u>
	<u>Primary Government</u>	<u>Component Units</u>	
Insured (FDIC)	\$ 200,000	\$ 30,550	\$230,550
Uninsured and Uncollateralized	<u>611,497</u>	<u></u>	<u>611,497</u>
Total Deposits	<u>\$ 811,497</u>	<u>\$ 30,550</u>	<u>\$842,047</u>

NOTE E--INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables for the primary government are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 10,189	Major Street	\$ 10,189
General	14,711	Local Street	14,711
General	9,658	Municipal Street	9,658
General	7,198	Water	7,198
Local Street	9,203	Municipal Street	9,203
Sewer	498	General	498
Sewer	<u>3,350</u>	Water	<u>3,350</u>
Total	<u>\$ 54,807</u>		<u>\$ 54,807</u>

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE F--FIXED ASSETS

Enterprise Funds--Sewer and Water Funds

A summary of proprietary fixed assets at December 31, 2003 follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Equipment	\$763,446	\$ 436,755	\$1,200,201
Construction in Progress		147,101	147,101
Less: Accumulated Depreciation	<u>(577,250)</u>	<u>(206,904)</u>	<u>(784,154)</u>
Net Fixed Assets	<u>\$186,196</u>	<u>\$ 376,952</u>	<u>\$ 563,148</u>

The depreciation expense for the Sewer and Water Funds was \$19,392 and \$10,516, respectively.

NOTE G--LONG-TERM DEBT

The individual long-term debt and other general long-term obligations of the primary government of the village, and the changes therein, may be summarized as follows:

	<u>Balance 01/01/03</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/03</u>
ENTERPRISE FUNDS			
Village of Marcellus Water Fund			
Contractual Bonds, issued by the Farmers Home Administration, \$300,000, maturing serially through 2020 in the two amounts of \$5,000 and \$10,000, and at an interest rate of 5.0%.	\$180,000	\$ (10,000)	\$170,000
Village of Marcellus Water Fund			
Revenue Bonds, issued by the United States Department of Agriculture, \$792,000 maturing serially through 2042, and at an interest rate of 4.5%.	<u> </u>	<u>\$148,000</u>	<u>\$148,000</u>
Total Long-Term Debt	<u>\$180,000</u>	<u>\$138,000</u>	<u>\$318,000</u>

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

Long-Term Debt--Enterprise Fund (Water Fund)

The annual water fund principle and interest required through maturity for the bonds payable outstanding as of December 31, 2003, is as follows:

Date of Issue: September 1, 1987

Amount: \$300,000

Purpose: Water Bonds

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity September 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
5.0%	2004	\$ 10,000	\$ 8,500	\$ 18,500
	2005	10,000	8,000	18,000
	2006	10,000	7,500	17,500
	2007	10,000	7,000	17,000
	2008	10,000	6,500	16,500
Thereafter	<u>2009-2020</u>	<u>120,000</u>	<u>39,000</u>	<u>159,000</u>
		<u>\$ 170,000</u>	<u>\$ 76,500</u>	<u>\$246,500</u>

Interest is payable semi-annually at the rate indicated on March 1 and September 1.

2003 Water System Improvements Bonds

The 2003 Water System Improvements Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a water system improvement project for the Village of Marcellus. The total bond issue approved by the U.S. Department of Agriculture, Rural Development is \$792,000. As of December 31, 2003, a total of \$148,000 of this bond issue has been drawn down for the water system improvement project with interest payable at 4.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

<u>Fiscal Year</u>	<u>July 1 Principal</u>
2004	\$ 7,000
2005	8,000
2006	8,000
2007	8,000
2008	9,000
2009-2042	<u>752,000</u>
	<u>\$792,000</u>

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE H--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The village maintains two enterprise funds that provide water and sewer services. Segment information for the year ended December 31, 2003 was as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating Revenues	\$ 86,635	\$ 149,722	\$ 236,357
Operating Income (Loss)	(14,152)	24,203	10,051
Net Income (Loss)	(8,430)	17,984	9,554
Land, Buildings, and Equipment			
Depreciation Expense	186,196	376,952	563,148
Net Working Capital	334,891	198,246	533,137
Long-Term Debt		318,000	318,000
Total Assets	526,202	591,234	1,117,436
Total Equity	521,087	257,198	778,285

NOTE I--RISK MANAGEMENT

The Village of Marcellus is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers compensation). The village has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workmens' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Township's Participating Plan (Plan) operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

NOTE J--SUBSEQUENT EVENT

In August 2002, the Village of Marcellus received a letter from the United States Department of Agriculture (USDA) approving a water project in the Village of Marcellus. The letter stated that the village would receive a grant of \$458,000 and a loan of \$792,000 for 40 years at 4.5% per year. As of December 31, 2003, the village has begun the project with construction in progress expending \$147,101 and of the bonds issued totaling \$148,000. In February 2004, the village amended the contract with the USDA to increase the amount of the bonds by \$150,000 to complete the project, bringing the total bonds to be issued to \$942,000.

VILLAGE OF MARCELLUS
STATEMENT OF REVENUES AND OTHER FINANCING
SOURCES--BUDGET TO ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

EXHIBIT F

	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Property Taxes			
Current and Delinquent	\$ 118,479	\$ 111,881	\$ (6,598)
Total Property Taxes	118,479	111,881	(6,598)
Licenses and Permits			
Peddler Permits	30	60	30
Franchise Fees	7,409	7,139	(270)
Total Licenses and Permits	7,439	7,199	(240)
State Aid			
Revenue Sharing	159,334	145,909	(13,425)
Total State Aid	159,334	145,909	(13,425)
Charge for Services			
Garbage Use Charges	62,906	59,602	(3,304)
Total Charge for Services	62,906	59,602	(3,304)
Interest and Rentals			
Vehicle Rental	45,000	66,065	21,065
Village Rental	12,000	12,000	-
Interest	1,500	1,756	256
Total Interest and Rentals	58,500	79,821	21,321
Other Revenue			
Sale of Fixed Assets	150	127	(23)
Other Miscellaneous		444	444
Total Other Revenue	150	571	421
Total Revenue	406,808	404,983	(1,825)
Other Financing Sources			
Operating Transfers In	30,000		(30,000)
Total Other Financing Sources	30,000	-	(30,000)
Total Revenue and Other Financing Sources	\$ 436,808	\$ 404,983	\$ (31,825)

VILLAGE OF MARCELLUS
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

EXHIBIT G

	Budget	Actual	Variance Favorable (Unfavorable)
Legislative			
Village Council	\$ 14,969	\$ 11,342	\$ 3,627
Total Legislative	14,969	11,342	3,627
General Government			
Other Professional	7,650	7,497	153
Attorney Fees	16,000	15,000	1,000
Clerk	22,073	31,972	(9,899)
Treasurer	4,520	4,346	174
Building and Grounds	26,560	26,197	363
Total General Government	76,803	85,012	(8,209)
Public Safety			
Police	93,000	83,722	9,278
Planning	250	120	130
Emergency Services	12,000	11,979	21
Total Public Safety	105,250	95,821	9,429
Public Works			
Department of Public Works	45,000	20,619	24,381
Drain-At-Large	5,544	5,139	405
Street Lights	13,000	11,903	1,097
Refuse Collection	46,000	64,647	(18,647)
Sidewalk Replacement	30,000		30,000
Total Public Works	139,544	102,308	37,236
Other			
Insurance and Fringes	17,375	18,803	(1,428)
Total Other	17,375	18,803	(1,428)
Capital Outlay	112,368	109,125	3,243
Total Capital Outlay	112,368	109,125	3,243
Total Expenditures	\$ 466,309	\$ 422,411	\$ 43,898

**VILLAGE OF MARCELLUS
COMBINING BALANCE SHEET--SPECIAL REVENUE FUNDS
DECEMBER 31, 2003**

EXHIBIT H

	Major Streets	Local Street	Municipal Street	Total
<u>ASSETS</u>				
Cash	\$ 11,817	\$ 2,975	\$ 64,948	\$ 79,740
Delinquent Taxes Receivable			7,783	7,783
Due From State	8,209	3,697		11,906
Due From Other Funds		9,203		9,203
Total Assets	\$ 20,026	\$ 15,875	\$ 72,731	\$ 108,632
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts Payable	\$ 2,157	\$ 1,164		\$ 3,321
Deferred Revenue			\$ 7,783	7,783
Due to Other Funds	10,189	14,711	18,861	43,761
Total Liabilities	12,346	15,875	26,644	54,865
Fund Equity				
Fund Balance	7,680	-	46,087	53,767
Total Fund Equity	7,680	-	46,087	53,767
Total Liabilities and Fund Equity	\$ 20,026	\$ 15,875	\$ 72,731	\$ 108,632

VILLAGE OF MARCELLUS**EXHIBIT I****COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE--SPECIAL REVENUE FUNDS****For the Fiscal Year Ended December 31, 2003**

	Major Streets	Local Streets	Municipal Street	Total
Revenues				
Property Taxes			\$ 47,090	\$ 47,090
State Grants	\$ 55,616	\$ 25,014		80,630
Interest	99	46	675	820
Other		264		264
Total Revenue	55,715	25,324	47,765	128,804
Expenditures				
Public Works	54,402	39,471	35,861	129,734
Total Expenditures	54,402	39,471	35,861	129,734
Excess of Revenues Over (Under) Expenditures	1,313	(14,147)	11,904	(930)
Other Financing Sources (Uses)				
Operating Transfers In		10,972		10,972
Operating Transfers (Out)	(1,769)		(9,203)	(10,972)
Total Other Financing Sources (Uses)	(1,769)	10,972	(9,203)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(456)	(3,175)	2,701	(930)
Fund Balance--January 1, 2003	8,136	3,175	43,386	54,697
Fund Balance--December 31, 2003	\$ 7,680	\$ -	\$ 46,087	\$ 53,767

VILLAGE OF MARCELLUS
COMBINING BALANCE SHEET--ENTERPRISE FUNDS
December 31, 2003

EXHIBIT J

	Sewer	Water	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 327,419	\$ 193,450	\$ 520,869
Accounts Receivable	8,739	20,832	29,571
Due From Other Funds	3,848		3,848
Property, Plant and Equipment Net of Depreciation	186,196	376,952	563,148
Total Assets	\$ 526,202	\$ 591,234	\$ 1,117,436
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Accounts Payable	\$ 5,115	\$ 5,488	\$ 10,603
Due to Other Funds		10,548	10,548
Long-Term Debt		318,000	318,000
Total Liabilities	5,115	334,036	339,151
Fund Equity			
Retained Earnings	521,087	257,198	778,285
Total Fund Equity	521,087	257,198	778,285
Total Liabilities and Fund Equity	\$ 526,202	\$ 591,234	\$ 1,117,436

VILLAGE OF MARCELLUS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS--ENTERPRISE FUNDS
For the Year Ended December 31, 2003

EXHIBIT K

	Sewer	Water	Total
Operating Revenues			
Charges for Services	\$ 86,635	\$ 145,494	\$ 232,129
Other		4,228	4,228
Total Operating Revenues	86,635	149,722	236,357
Operating Expenses			
Personnel Costs	1,990	1,990	3,980
Operating Expenses	1,626	8,634	10,260
Repairs and Maintenance	185	3,248	3,433
Contracted Services	67,856	75,683	143,539
General Insurance	2,002	3,719	5,721
Utilities	2,471	9,066	11,537
Vehicle Rental	5,265	12,663	17,928
Depreciation	19,392	10,516	29,908
Total Operating Expenses	100,787	125,519	226,306
Operating Income (Loss)	(14,152)	24,203	10,051
Nonoperating Revenues (Expenses)			
Interest Income	5,722	2,781	8,503
Interest Expense		(9,000)	(9,000)
Total Nonoperating Revenues (Expenses)	5,722	(6,219)	(497)
Net Income (Loss)	(8,430)	17,984	9,554
Beginning Retained Earnings	529,517	239,214	768,731
Ending Retained Earnings	\$ 521,087	\$ 257,198	\$ 778,285

VILLAGE OF MARCELLUS
COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended December 31, 2003

EXHIBIT L

	Sewer	Water	Total
Cash Flows From Operating Activities			
Cash Received From Customers	\$ 86,875	\$ 137,762	\$ 224,637
Cash Received From Other Operating Revenue		4,228	4,228
Cash Payments to Employees for Services and Benefits	(1,990)	(1,990)	(3,980)
Cash Payments to Suppliers for Goods and Services	(74,702)	(108,199)	(182,901)
Net Cash Provided by Operating Activities	10,183	31,801	41,984
Cash Flows From Noncapital Financing Activities			
Due From Other Funds	(2,989)		(2,989)
Due to Other Funds		8,985	8,985
Net Cash Provided by Capital and Related Financing Activities	(2,989)	8,985	5,996
Cash Flows From Capital and Related Financing Activities			
Acquisition of Capital Assets		(147,102)	(147,102)
Proceeds From Issuance of Bonds		148,000	148,000
Reduction of Long-Term Debt		(10,000)	(10,000)
Interest Paid on Capital Financing		(9,000)	(9,000)
Net Cash Provided by Capital and Related Financing Activities	-	(18,102)	(18,102)
Cash Flows From Investing Activities			
Interest on Cash Equivalents	5,722	2,781	8,503
Net Cash Provided by Investing Activities	5,722	2,781	8,503
Net Increase (Decrease) in Cash and Cash Equivalents	12,916	25,465	38,381
Cash and Cash Equivalents at Beginning of Year	314,503	167,985	482,488
Cash and Cash Equivalents at End of Year	\$ 327,419	\$ 193,450	\$ 520,869
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (14,152)	\$ 24,203	\$ 10,051
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	19,392	10,516	29,908
(Decrease) Increase in Accounts Receivable	240	(7,732)	(7,492)
Increase in Accounts Payable	4,703	4,814	9,517
Net Cash Provided by Operating Activities	\$ 10,183	\$ 31,801	\$ 41,984



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

June 1, 2004

Village Council
Village of Marcellus
Cass County
P.O. Box 428
Marcellus, Michigan 49067

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Village Council:

We have audited the financial statements of the Village of Marcellus as of and for the year ended December 31, 2003, and have issued our report thereon dated June 1, 2004. As described more fully in Note B, the village has not maintained a record of its general fixed assets except those recorded by the Enterprise Fund. Accordingly, the statement of general fixed assets included in this report does not include all of the general fixed assets of the village, as required by U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether Village of Marcellus' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance, which we have reported to management in the attached Comments and Recommendations Report, as items 2003-5 and 2003-6.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Village of Marcellus' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the village's ability to record, process,

summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Comments and Recommendations Report, as items 2003-1, 2003-2, 2003-3 and 2003-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that all of the reportable conditions described above are material weaknesses.

This report is intended solely for the information of management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect the village's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is an internal control deficiency in which the design or operation of a component(s) of internal control does not reduce to a relatively low level the risk that a material misstatement may be contained in the financial statements.

Our consideration of internal controls would not necessarily disclose all matters in internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

Treasurer--Reconciliation of the Bank Accounts

Finding 03-01

Condition: Bank reconciliations were not performed for the savings accounts or certificates of deposits in 2003. The lack of bank reconciliations resulted in cash discrepancies in all funds.

Criteria: According to the Uniform Accounting Procedures Manual, all bank accounts must be reconciled to the local unit accounting records monthly. The clerk's records must agree with or reconcile to the treasurer's and the bank's records. A reconciliation should be prepared in duplicate for each month; one copy for the clerk and one copy for the treasurer.

Recommendation: We recommend that the clerk and the treasurer compare the cash balances of the general ledger to the bank reconciliations. The activity in the bank should tie back to the general ledger and provide a means to correct errors in posting.

Village Council--General Fixed Assets (Capital Assets)

Finding 03-02

Condition: The village does not maintain adequate internal controls for fixed assets and a general fixed asset account group is not maintained in accordance with generally accepted accounting principles.

Criteria: Accounting principles generally accepted in the United States of America requires that a statement of general fixed assets be included in the financial statements. It is essential that capital assets be recorded within the local unit general ledger. The amount in the general ledger must be supported by detailed subsidiary ledgers. Infrastructure assets that are associated with a specific enterprise or internal services fund are recorded in the appropriate fund starting in 2004.

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

The recording of capital assets makes it possible to provide for protective custody and to set responsibility for proper use and custody of such assets. It also permits proper disclosure on financial statements, for no financial report is complete without reflecting the capital assets of a local unit.

Recommendation: We recommend that the village develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the village should be taken and included in the permanent records of the village on at least an annual basis.
- 2) All assets owned by the village should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the village to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the village should keep records on all of the assets owned by the village, which includes the following information:

- Date of Acquisition
- Tag Number
- Description of Property
- Original Cost of Asset
- Location of Asset
- Date of Disposal (when sold or scrapped)
- Salvage Value (if any)
- Depreciation, Life and Method

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to fixed assets and provide a system of protection for the assets; it will also provide an excellent record for insurance and replacement purposes as well. GASB Statement No. 34 requires fixed assets to be included in the financial statements of the village.

We also recommend that the village council establish, by resolution or policy, a capitalization policy that specifies a dollar value or capitalization threshold that assets must exceed if they are to be capitalized. There should be procedures in place to assure that all fixed assets with the established dollar value have inventory tags attached and that the tag numbers be indicated on the inventory list. This is especially important in view of the following comment regarding missing property.

VILLAGE OF MARCELLUS
COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

Clerk--Utility Billings

Finding 03-03

Condition: The village is currently recording the revenue for the penalties earned on garbage, sewer, and water billings in the Water Fund.

Criteria: According to the Uniform Chart of Accounts issued by the Michigan Department of Treasury, enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. The pricing policies of these activities establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Recommendation: We recommend that the village begin recording the penalties earned on garbage, sewer, and water billings in the proper funds.

Clerk--Utility Billings Receivable

Finding 03-04

Condition: The village could not locate its source for the balances of the receivables for the utility billings.

Criteria: The Standards of Internal Control in the Federal Government states: "all transactions and significant events need to be clearly documented, and the documentation should be readily available for examination."

Recommendation: We recommend that the village properly maintain its records in the future in regards to the utilities receivable balances.

STATUTORY NONCOMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes.

Village Council--Adoption of Budget

Finding 03-05

Condition: The Village of Marcellus, whose fiscal year ends December 31, adopted its 2003 General Appropriations Act in February 2003.

Criteria: According to Public Act 2 of 1968, the Uniform Budgeting Act, local governmental units are required to adopt their General Appropriation Act prior to the start of the ensuing fiscal year.

Direction: We direct that in the future, the Village of Marcellus review and adopt a balanced General Appropriations Act by December 31 of the current fiscal year in accordance with PA 2 of 1968.

VILLAGE OF MARCELLUS
COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

Expenditures in Excess of Appropriations--Village's Budgetary Funds

Finding 03-06

Condition: Our examination of procedures used by the village to adopt and maintain operating budgets for the village's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The village's 2003 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the village. As detailed below, actual 2003 expenditures exceeded the board's approved budget allocations for several General Fund activities.

During the fiscal year ended December 31, 2003, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
General Government			
Clerk	\$ 22,073	\$ 31,972	\$ (9,899)
Public Works			
Refuse Collection	46,000	64,647	(18,647)
Other			
Insurance and Fringes	17,375	18,803	(1,428)
Municipal Street			
Public Works	17,000	35,861	(18,861)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

Direction: We direct the village to develop budgetary control procedures for the General Fund and Special Revenue Funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.